

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

December 16, 2008

The Capital Projects and Bond Oversight Committee met on Tuesday, December 16, 2008, at 1:00 p.m., in Room 169 of the Capitol Annex. Senator Elizabeth Tori, Chair, called the meeting to order.

Present were:

Members: Senator Elizabeth Tori, Co-Chair; Senators Tom Buford and Dan Seum; and Representatives Mike Denham, Steven Rudy, and Jim Wayne.

Guests testifying before the Committee: Bob Wiseman, University of Kentucky; Katie Smith, Cabinet for Economic Development; John Hicks, Governor's Office for Policy and Management; Jack McNear, Kentucky State University; Brett Antle, Office of Financial Management; Nancy Brownlee, Finance and Administration Cabinet; Sandy Williams, Kentucky Infrastructure Authority; Dr. Robert Tarvin, School Facilities Construction Commission; Clay Crupper, Mayor of Dry Ridge; Glen Caldwell, Mayor of Williamstown; Douglas Beckham, City Administrator for Williamstown; and Robert Sturdivant, HDR Quest Engineers.

LRC Staff: Nancy Osborne, Shawn Bowen, Kristi Culpepper, and Samantha Gange.

Senator Tori asked Nancy Osborne, Committee Staff Administrator, to review correspondence and information items.

Ms. Osborne said the first item of correspondence was a letter from the Committee to the Finance Cabinet relating to the Kentucky Infrastructure Authority (KIA) Fund A loan to the City of Williamstown. She indicated that guests from the City of Williamstown would like to address the Committee during KIA's presentation today.

Next, Ms. Osborne discussed one information item that related to the Administrative Office of the Courts (AOC) Court Facilities Standards Committee. This Committee met November 14, 2008, and gave preliminary approval for Phase A Schematic design of the Carlisle and Wolfe counties court facilities. She noted that the Carlisle county courthouse is being rebuilt after it suffered a fire. The facility is unique in that it will house both the AOC staff as well as local county government staff.

Included in the monthly Staff Update was an article about ConnectGRADD high-speed wireless Internet service being available by December 2008 to residents living in the seven counties of the Green River Area Development District; the project was partially funded with a KIA loan of \$1.1 million. Also noted was an article about plans by the University of Kentucky (UK) to construct an \$18.6 million high-technology research facility as part of the College of Engineering “Digital Village.” The facility will be partly funded by the “Bucks for Bricks” program as authorized in House Bill 406 of the 2008 General Assembly. Next, Ms. Osborne reported that the construction on the Robertson County Courthouse Annex has resumed after being delayed for several months due to construction issues, and the Kentucky School for the Deaf is considering selling 108 acres of undeveloped land on its campus.

Ms. Osborne next read a resolution honoring Nancy René Brownlee, Director of Division of Real Properties, for her years of service to the Commonwealth. Senator Tori thanked Ms. Brownlee for her service and wished her a happy retirement. Ms. Brownlee thanked the Committee and the resolution was passed by voice vote.

Senator Tori indicated that the Committee had a quorum and asked the secretary to take the roll.

Senator Seum made a motion to approve the minutes of the November 18, 2008, meeting. The motion was seconded by Representative Wayne and approved by voice vote.

Senator Tori then read a resolution honoring Nancy Rose Osborne, Committee Staff Administrator, Capital Projects and Bond Oversight Committee, for her years of service to the Commonwealth and to the Committee. Ms. Osborne will retire from LRC effective December 31, 2008. Senator Tori thanked Ms. Osborne for her service. Representative Wayne commented that there are few people in the Legislative Research Commission that can match the enthusiasm and competence of Ms. Osborne and wished her a happy retirement. Senator Seum commented that he was very impressed with Ms. Osborne’s professionalism and congratulated her on her retirement. Representative Denham thanked Ms. Osborne for her hard work and honesty. Senator Tori commented that Ms. Osborne will be greatly missed. The resolution passed by voice vote.

Next, Senator Tori recognized Bob Wiseman, Vice President for Facilities Management, University of Kentucky. Mr. Wiseman asked the Committee for its approval of a lease modification for the College of Education. The university will add 1,150 square feet to an existing 5,263 square foot lease to accommodate the university’s need for additional storage and office space. The lease cost is at \$10.43 a square foot for the new space. With this action, the cost of the lease (\$101,712) now exceeds the \$100,000 threshold for reporting.

Representative Denham made a motion to approve UK's lease modification. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Mr. Wiseman then reported on the initiation of a capital project on UK's Coldstream Research Campus. The project will expand the electrical infrastructure in the park and provide a redundant source of power to the park. The overall project is \$6.5 million, of which \$5.5 million is financed with a grant from the Kentucky Economic Development Finance Authority (KEDFA). The KEDFA grant is technically to Kentucky Technology, Inc. (KTI), a for-profit subsidiary of the UK Research Foundation. The remaining \$1 million is financed with unrestricted university funds. A condition of the grant from KEDFA was that going forward, all leases at Coldstream would set aside 10 percent into a sinking fund for further improvements to the park.

Representative Wayne asked Mr. Wiseman to discuss KTI and its role as agent for the university. Mr. Wiseman said that KTI was a wholly-owned corporation within UK, which was established to work with for-profit entities. KTI is overseen by an internal Board of Directors. Representative Wayne asked how the power lines will be procured. Mr. Wiseman said that Kentucky Utilities will supply the power, and half of the \$6.5 million is for work with them. The other half is for the internal loop system through the park. UK will follow the model procurement laws for the project.

Senator Tori asked Katie Smith, Deputy Commissioner, Cabinet for Economic Development, Department of Commercialization and Innovation (DCI), to report on two projects. First reported was a modification to the DCI grant agreement with the Kentucky CVFS, Inc. to outline the repayment of funds as a result of closure and termination of that project. The second project reported was the \$5.5 million allocation from DCI to KTI to provide a redundant electrical and fiber optic infrastructure at UK's Coldstream Research Farm.

Senator Seum asked what percentage of DCI's total available funding will be used for this \$5.5 million grant. Ms. Smith said that the current available funding is around \$17 million, and the grant represents nearly one-third of the available funding.

Senator Tori next asked John Hicks, Deputy Director, Governor's Office for Policy and Management, to discuss the Finance Cabinet's monthly report. Mr. Hicks first discussed a new project for Kentucky State University (KSU) to construct a Center for Families and Children. The project scope is \$2,022,000 from federal funds. The purpose of the project is to create a child development facility that will collaborate with the university's Family and Consumer Science and Early Education programs. The new center will be located on KSU's south campus, which will support KSU's Rosenwald Child Development Laboratory. The building size will be approximately 8,500 square feet. The Council on Postsecondary Education has reviewed and approved the project.

In response to questions from Senator Tori, Jack McNear, Director of Capital Planning and Construction, Kentucky State University, said that KSU is staffing the facility. Income generated from the childcare center will cover the cost of staff, as well as maintenance and operation of the facility. He said additional federal funds will be available for maintenance and operating expenses if needed.

Representative Wayne asked Mr. McNear to provide the Committee with a business plan of the project. Mr. McNear responded that he would.

Senator Tori asked when the building would be open. Mr. McNear responded that KSU anticipates the center opening in spring 2010.

Senator Seum asked if the center was just for students and faculty or if it would be available to the public. Mr. McNear said that the center would be open to the public.

Representative Wayne asked if prevailing wage laws would be followed during the construction. Mr. McNear said KSU would be following the prevailing wage laws. Representative Wayne complimented KSU on initiating the project.

Representative Denham made a motion to approve the project. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Next, Mr. Hicks reported an \$800,000 scope increase for the Land Grant Farm Facility Welcome/Conference Center project. The fund sources included \$400,000 in federal funds and \$400,000 in university restricted funds. If approved, the revised project scope would be \$4.8 million.

Representative Denham asked why the project costs have increased so much. Mr. McNear said that initially the project was designed to accommodate 600 people in the facility. KSU could not build a building to accommodate 600 people with the amount of money that was originally allotted. Due to the location of the building, the bids came in extremely high. When KSU did get a successful bid, the contractor backed out because of the economic conditions and some subcontractors were not able to get financing for the materials needed.

Senator Tori asked what elements have been eliminated from the project to bring it back within scope. Mr. McNear said that KSU reduced the size of the parking area, eliminated a receiving wing in the building, and scaled back from a full-service kitchen to a catering kitchen.

In response to questions from Representatives Denham and Rudy, Mr. McNear said this is the second scope increase for the project before construction has started. Mr. McNear said that he did not anticipate any additional scope increases for this project.

Representative Denham made a motion to approve the project. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Mr. Hicks then reported that the Kentucky Heritage Land Conservation Fund (KHLCF) has awarded funds to the Department of Fish and Wildlife Resources and the Breckinridge County Fiscal Court to acquire 1,221 acres in Breckinridge County referred to as Town Creek/Flint Run. The land was purchased at auction from Kimball International. Mr. Hicks said the project is unique in that the KHLCF has awarded funds to both the Department of Fish and Wildlife Resources (\$1.3 million) and to Breckinridge County Fiscal Court (\$1.3 million).

Senator Tori asked what the cost per acre was for the land. Mr. Hicks responded that it was about \$1,700 per acre.

Senator Seum asked if this purchase removes the acres from the city's tax base. Mr. Hicks responded that it would. No action was required for the KHLCF allocation.

Senator Tori introduced representatives from the City of Williamstown and invited them to come forward to discuss the KIA Fund A loan for the City of Williamstown. The Williamstown project has been brought before the Committee on two separate occasions, in June and November 2008. At the November meeting, the project was not approved based on earlier concerns regarding the significant rate increases associated with the loan and questions as to whether or not citizens were aware of the rate increases. Mayor Glen Caldwell, City of Williamstown; Mayor Clay Crupper, City of Dry Ridge; Douglas Beckham, City Administrator of Williamstown; and Robert Sturdivant, HDR Quest Engineers came to the table.

Mayor Caldwell thanked the Committee for its time. He said this project is a regional project that covers two cities – the City of Williamstown and the City of Dry Ridge. He then referred to a June 20 letter from the Committee to the Finance Secretary in which the project's customer base was stated as 1,071. He explained that Dry Ridge is counted as just one customer within that number, but including Dry Ridge and its constituents, the actual number of customers would be 1,915, which changes the per customer base to 9,790 instead of 16,665. He said the rate increases outlined in the June 20 letter represent a "worst case scenario."

Mr. Caldwell said the City is attempting to secure grant funding for this project. The Northern Kentucky Area Development District has just completed a Community Development Block Grant survey on the City's behalf, and it appears that they will be able to secure a \$1 million grant for each of the two cities. Based upon the growth both cities have experienced in the last 10 years, it is estimated that 5,700 to 6,000 new customers would be available immediately after this plant goes online.

Mr. Robert Sturdivant, HDR/Quest Engineers, said the existing Williamstown sewer plant, which serves both Williamstown and Dry Ridge, was constructed in the late 1960s and upgraded twice. Most of the equipment is nearing the end of its design life and there is no room to expand the plant on the existing site. He said the new treatment plant is needed by the city for future growth and development.

Senator Tori noted that members were particularly concerned about the rate increases to customers and asked if public hearings were held. Mr. Caldwell said public hearings were held and there was no opposition from anyone within the city limits of Williamstown or Dry Ridge. He said the two city councils held a joint council meeting and discussed the project very thoroughly.

Mr. Caldwell said no constituents living in the City of Williamstown or Dry Ridge attended the public hearings. Five people attended the first public hearing; however, they lived outside the city limits close to the site of the proposed plant and were concerned about the location of the plant. None of the households close to the plant will be served by the plant since the residents in that area of the county have septic systems.

Senator Tori said there was no question about the necessity for the plant. The question was whether or not residents were informed of the significant rate increases. Mr. Caldwell noted the City Council meetings are broadcast on local public access cable television. He said residents were aware of the rate increases.

Senator Seum said it bothered him that a representative from the City of Williamstown did not appear before the Committee in November when the project was on the agenda. He added that the Committee, until today, did not know that the City of Dry Ridge was part of the project. He said having this information in November would have been helpful.

Senator Seum welcomed Mayor Crupper, and noted that he was a former state representative. Senator Seum reiterated his concerns with this project, stating that it was important to have a representative of the city available to address the Committee.

Representative Rudy asked what the priority ranking for this project was. Mr. Caldwell replied that it was ranked third in the region.

Representative Denham said he supported this project because he realized the growth in this area of the state is tremendous.

In response to a question from Representative Denham, Mr. Caldwell said the Finance and Administration Cabinet has not communicated its position on this project.

Douglas Beckman, City Administrator for the City of Williamstown, added that they are waiting to see if the Finance Cabinet Secretary responds to this situation and exercises his ability to approve the loan. He said as soon as they know the Secretary's position, they could possibly request KIA to submit it to the Committee.

Senator Tori called on Sandy Williams, Fiscal Analyst, KIA, to present three new KIA loans. Ms. Williams first presented a loan increase for the Electric Plant Board of the City of Glasgow in Barren County. The city is requesting a Fund B loan increase of \$100,000 (9.1%). If approved, the new loan amount would be \$1.2 million. The additional funds will be used to expand the capacity of the fiber optic cable connecting the City of Glasgow's broadband network to the City of Bowling Green.

Senator Tori asked if there were any Homeland Security funds involved. Ms. Williams said that the Fund B loan was 100 percent financing for the project.

Representative Denham made a motion to approve the Fund B loan increase for the Electric Plant Board of the City of Glasgow for a revised loan of \$1.1 million. The motion was seconded by Senator Buford and passed unanimously by roll call vote.

Ms. Williams said that the next loan request was for the City of Lebanon in Marion County. The city is requesting a Fund B loan in the amount of \$800,000 to construct a new pump station and waterline connecting the Lebanon/Marion County Industrial Park to the City's existing transmission. This project will enable the Lebanon Water Works and the Marion County Water District to provide water to a new development along the bypass. The Fund B loan will be combined with a 2008 KIA grant and local funds for a total project amount of just over \$1.3 million. This will be a 20-year loan with an interest rate of 1.07 percent.

Representative Rudy made a motion to approve the Fund B loan of \$800,000 for the City of Lebanon, Marion County. The motion was seconded by Representative Denham and passed unanimously by roll call vote.

Ms. Williams next discussed a request from the Madison County Utilities District for a \$100,456 (10%) increase to its outstanding \$1,004,560 Fund F loan. The new loan amount would be \$1,286,310. The increase is due to higher than expected bids on the water storage tank portion of the project, which is consistent with other water storage tank bids that KIA has seen recently. The original project was to replace 1.1 miles of water mains, construct a 500,000 gallon water storage tank, and rehabilitate a pump station. The total project amount is just over \$1.2 million. The term of the loan is 20 years and the interest rate is 1 percent.

Representative Rudy made a motion to approve the Fund F loan for the Madison County Utilities District. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Ms. Williams reported four allocations from the Unobligated Bond Pool. The projects are as follows: City of Barlow (Ballard County) - \$500,000 grant to construct a new treatment plant and a sewer rehabilitation center - total project is \$3,959,479; City of Olive Hill (Carter County) - \$50,000 grant for an emergency water interconnect with Rattlesnake Ridge Water District - total project is \$65,000; City of Greensburg (Green County) - \$200,000 grant to increase the height of the existing water tank - total project is \$500,000; and City of Benton (Marshall County) - \$500,000 grant for a water treatment plant and lagoon rehabilitation center - total project is \$1.9 million.

Representative Denham made a motion to approve the Unobligated Bond Pool grants. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Ms. Williams brought to the Committee's attention 28 KIA grant projects and asked if any members had any questions concerning the grants. Each project was authorized in a previous budget bill and no further Committee action was needed.

Representative Wayne asked if each member of the KIA Board received a copy of the letters from the Committee to the Finance Cabinet Secretary rejecting the Williamstown project. Ms. Williams responded that the Board members did receive a copy of the November letter.

Ms. Osborne said that Ms. Williams, at the request of Representative Denham, brought a list of all KIA projects that have been approved since KIA changed its policies in late 2007. Each Committee member was provided a copy of the list. Fund A loans that have taken place since the policy changes were about \$236 million and Fund F loans were about \$36 million.

Senator Tori called Brett Antle, Deputy Director, Office of Financial Management, to the table. Mr. Antle reported six new bond issues with the School Facilities Construction Commission (SFCC) debt participation: Beechwood Independent (Kenton County), Boone County, Carlisle County, Graves County, Nelson County, and Nicholas County.

Representative Wayne asked if any of the school facilities were energy certified by the Leadership in Energy and Environmental Design (LEED) program. Mr. Antle deferred to Robert Tarvin, Executive Director, SFCC. Dr. Tarvin said that the new construction for schools will be LEED built, but LEED certification is not currently possible on school renovations.

Representative Denham made a motion to approve the six new SFCC bond issues. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Ms. Osborne said there were three local school bond issues with 100 percent locally debt service support: the Kentucky Interlocal School Transportation Association (KISTA), Hopkins County, and Jefferson County. No Committee action was required.

Ms. Osborne said also included in Committee members' folders was the updated debt issuance calendar.

Ms. Osborne said that it has been an honor serving the Committee.

With there being no further business, Representative Rudy made a motion to adjourn the meeting. The motion was seconded and the meeting adjourned at 2:15 p.m.